

News monitored for: Kotak Private Equity

THE ECONOMIC TIMES

Investors Reap Dividends after Profitable Exits by Realty Funds

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Timely Exits Help Realty Funds Gain Big

Funds clock an average return of 20% in 2011

Good Deals in Bad Times

45% Returns generated by Kotak Realty Fund on its ₹95 crore investment in Peepul Tree Properties	32% Returns Kotak Realty fund made on an average on its exits	20-30% Gains HDFC PMS made while exiting investments in Runwal Projects, Ansal Group and Kalpataru
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There's demand for moderately-priced residential apartments; only high-end flats are not selling that well. Portfolio returns could be higher this year as lower interest rates will push up demand; we hope to generate 25-30% returns on our portfolios this year

ASHISH JOSHI, Managing Partner, Real Estate, Milestone Capital Advisors

SHAILESH MENON
MUMBAI

Wealthy investors who had put money in realty funds a few years ago are reaping rich dividends on the back of a series of profitable exits by these funds.

Leading funds HDFC PMS, Kotak Realty, Milestone Real Estate Fund and ASK Real Estate Portfolio, among others, have profitably exited about 6-12 projects between August and December 2011. Almost all these funds have logged well over 20% annualised returns on their investments at exit, wealth managers and sources said.

"We could sell assets worth \$20 million over the last 18 months. Last year was very good for exits; on an average, we made 32% returns on portfolios we liquidated," said S Srinivasan, CEO of Kotak Realty Fund.

Kotak Realty Fund is learnt to have generated over 45% returns on its ₹95 crore investment in Peepul Tree Properties. HDFC PMS exited its investments in Runwal Projects, Ansal Group and Kalpataru, logging 20 to 30% returns. Milestone Real Estate is also learnt to have made profitable exits in a few projects in Mumbai and Chennai, while IL&FS REIT Fund has earned good returns from commercial projects in Mumbai and Kolkata.

Realty funds pool in money from rich investors and invest in real estate companies and individual projects. Most asset management companies manage their realty funds on PMS (portfolio management scheme) platforms and they follow a private equity mode of investment. These funds have a life cycle of six to eight years, of which, the first three years are spent deploying the fund. A few like HDFC PMS invested in debts with equity kickers to strike a higher return.

According to wealth managers, well-managed realty funds start paying dividends from the fourth year of starting the fund. Funds like HDFC PMS,

Kotak Real Estate and Milestone have already started paying dividends to investors. Realty fund managers deduct 3-5% (from portfolio gains) as management charges and pay back the remaining as dividend to investors.

"Realty funds get good deals in bad market conditions. We've exited some of our residential projects in Mumbai, Chennai and Bangalore with good gains," said Ashish Joshi, managing partner, real estate, Milestone Capital Advisors.

"There's demand for moderately-priced residential apartments; only high-end flats are not selling that well.

Portfolio returns could be higher this year as lower interest rates will push up demand; we hope to generate 25-30% returns on our portfolios this year," said Joshi.

Equity analysts are maintaining a near-positive outlook for the real estate sector this year. They expect demand to move up and stabilise once the Reserve Bank of India starts cutting interest rates. Moderate demand in the initial phase of rate cuts will enable real estate companies to complete existing projects and take up new ones.

"Our ongoing residential projects are already seeing strong cash flows. We're generating 1.5 times the money we initially invested, and that too in just 24 months. We expect our portfolio returns to be around 30% this year," said Sunil Rohokale, executive director, ASK Investment Holdings, which raised ₹700 crore for its second real estate fund last year.

According to Rohokale, property prices and demand are stable in Pune, Bangalore, Chennai and Delhi. There is demand for residential properties with a price tag of ₹5,000-6,000 a square feet, he said.

Equity analysts are maintaining a near-positive outlook for the realty sector this year on expected pick up in demand

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